

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 91-523-W - ORDER NO. 92-380  
MAY 22, 1992

IN RE:	Application of Lockhart Power	)	
	Company, for Approval of a New	)	
	Schedule of Rates and Charges	)	ORDER APPROVING
	for Water Service Provided to	)	RATES AND CHARGES
	its Customers in Union County,	)	
	South Carolina.	)	

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application filed by Lockhart Power Company (the Company or Lockhart) on December 10, 1991, for an increase in its rates and charges for water service provided to its customers in Union County, South Carolina. The Application was filed pursuant to S.C. Code Ann. §58-5-240 (Supp. 1991) and 26 S.C. Regs. 103-821 (1976).

By letter dated December 18, 1991, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing and Hearing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing and Hearing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file appropriate pleadings. Additionally, the Company was instructed to directly notify all of its customers affected by the proposed increase. The Company submitted affidavits

indicating that it had complied with these instructions. The Commission did not receive any Petitions to Intervene or Letters of Protest.

On April 29, 1992, a public hearing concerning the matters asserted in the Company's Application was held in the Commission's hearing room. Pursuant to S.C. Code Ann. §58-3-95 (Supp. 1991), a panel of three Commissioners, Commissioner Mitchell, presiding, Commissioner Arthur, and Commissioner Butler, was designated to hear and rule on this matter. M. John Bowen, Esquire, represented the Company, and Gayle B. Nichols, Staff Counsel, represented the Commission Staff.

Upon full consideration of the Company's Application, the evidence presented at the hearing, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

#### FINDINGS OF FACT

1. Lockhart provides water service to 674 residential and commercial customers and to one industrial customer in Lockhart Village and Monarch Village in Union County, South Carolina. Water service is provided to the Lockhart Village customers through the Company's Lockhart Water System (Lockhart System). The Lockhart Water System purchases water from the Lockhart Plant of Milliken & Company. Water service is provided to Monarch Village customers through the Company's Monarch Water System. The Monarch Water System (Monarch System) purchases water from the City of Union.

2. Lockhart and the City of Union have reached an agreement whereby Lockhart will transfer the assets of its Monarch System to the City of Union. Lockhart has filed this agreement with the Commission for approval. Hearing Exhibit 2. Lockhart anticipates that, with Commission approval, the transfer will occur in three to four months. Lockhart asserts that it has provided separate financial information and is requesting different rates for its Monarch and Lockhart Systems because it intends to transfer the Monarch System.

3. Lockhart's present rates and charges were approved by Order No. 89-1054 in Docket No. 89-179-W (November 7, 1989). For its residential and commercial customers, Lockhart charges a \$5.00 Minimum Monthly Charge which includes 2,000 gallons of water and a \$1.38 for each 1,000 gallons thereafter. Lockhart charges its industrial customer a Minimum Monthly Charge of \$315.00 which includes 2,000 gallons of water and a \$1.06 for each 1,000 gallons thereafter. Lockhart's connection charge is \$265.00 for a 5/8" x 3/4" meter and \$350.00 for a 1" meter.

4. Lockhart proposes to increase its present Minimum Monthly Charge to \$6.00 for its residential and commercial customers served by the Lockhart Water System to \$5.65 for its residential and commercial customers served by the Monarch Water System. Lockhart proposes to increase its present Gallonage Rate to \$1.90 per thousand gallons for its residential and commercial customers served by Lockhart Water System and to \$1.57 per thousand gallons for the same classes of customers served by the Monarch Water

System. These proposed charges would increase an average Lockhart Water System customer's bill by 27.47% and an average Monarch Water System customer's bill by 13.35%.

5. Lockhart proposes to increase its present Minimum Monthly Charge to \$386.50 and its Gallonage Rate to \$1.30 per thousand gallons for its industrial customer. These proposed rates would increase the industrial customer's monthly bill by 22.65%.<sup>1</sup>

6. Lockhart proposes to increase its connection fee from \$265 to \$300 for 5/8" x 3/4" meters and to increase its connection fee from \$350 to \$375.00 for 1" meters. The Company has provided a narrative explanation supporting this increase. Hearing Exhibit 3, Staff Data Request Response 5.

7. Lockhart asserts its requested increase in rates and charges is necessary and justified because its costs have significantly increased since its current rates were approved in 1989. Specifically, Lockhart contends that inflation at the rate of 3-4% per year, increased testing, monitoring, and flushing of its water system, growing regulatory requirements, and a 24% increase since 1988 in taxes other than income have increased the Company's cost of doing business. Despite its concerted effort at controlling its costs, Lockhart asserts that for the twelve months ending September 30, 1991, it had a negative operating margin.

8. Lockhart proposes that the appropriate test year upon which to consider its requested increase is the twelve month period

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1. Lockhart's industrial customer is the Monarch Plant of Milliken and Company.

ending September 30, 1991.

9. Lockhart agreed with all of the accounting adjustments proposed by the Commission Staff.

10. Under the Company's presently approved rates, after pro forma and accounting adjustments, the Commission Staff determined that Lockhart's operating revenues, operating expenses, and net income for return for the Company's Lockhart System were \$33,086, \$38,936, and (\$5,850), respectively. Similarly, the Commission Staff determined that Lockhart's operating revenues, operating expenses, and net income for return for the Company's Monarch System were \$86,247, \$94,814, and (\$8,567) respectively.

11. After making accounting and pro forma adjustments, the Commission Staff concluded that the Company's present operating margin is (17.68%) for its Lockhart System and (9.93%) for its Monarch System. The Commission Staff determined that the Company's proposed increase in its rates and charges would increase its operating margin to 5.12% for its Lockhart System and to 4.25% for its Monarch System.

#### CONCLUSIONS OF LAW

1. The Company is a water utility providing service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10, et seq. (1976).

2. A fundamental principle of the ratemaking process is the establishment of a historical test year as the basis for calculating a utility's revenues and expenses and, consequently,

the validity of the utility's requested rate increase. While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test-year changes in expenses, revenues, and investments and will also consider adjustments for any unusual situations which occurred in the test year. See, Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E.2d 290 (1984), citing City of Pittsburgh v. Pennsylvania Public Utility Commission, 187 Pa.Super. 341, 144 A.2d 648 (1958); Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E.2d 278 (1978).

In light of the fact that the Company proposes that the twelve-month period ending September 30, 1991, is the appropriate test year and Staff has audited the Company's books for that test year, the Commission concludes that the twelve-month period ending September 30, 1991, is the appropriate test year for the purposes of this rate request.

3. The Commission concludes that each of the pro forma and accounting adjustments proposed by the Commission Staff are appropriate and, are therefore, adopted by the Commission. The Commission notes that the Company accepted each of the Commission Staff's adjustments.

4. The Commission concludes that, after pro forma and accounting adjustments, the Company's test year operating revenues, operating expenses, and net income for return for its Lockhart System were \$33,086, \$38,936, and (\$5,850), respectively. Further,

the Commission concludes that after pro forma and accounting adjustments, the Company's test year operating revenues, operating expenses, and net income for return for its Monarch System were \$86,247, \$94,814, and (\$8,567), respectively. These figures are reflected in Table A as follows:

TABLE A  
NET INCOME FOR RETURN

LOCKHART SYSTEM

BEFORE RATE INCREASE

Operating Revenues	\$33,086
Operating Expenses	\$38,936
Net Operating Income (Loss)	(\$5,850)
Customer Growth	0
Net Income (Loss) for Return	<u>(\$5,850)</u>

MONARCH SYSTEM

BEFORE RATE INCREASE

Operating Revenues	\$86,247
Operating Expenses	\$94,814
Net Operating Income (Loss)	(\$8,567)
Customer Growth	0
Net Income (Loss) for Return	<u>(\$8,567)</u>

5. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or

speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and . . . that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

6. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rates of a public utility. For a water utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the net operating income for return by the total operating revenues of the utility. This method was recognized as an acceptable guide for ratemaking purposes in Patton, supra.

The Commission concludes that use of the operating margin is appropriate in this case. Based on the Company's gross revenues, operating expenses, and customer growth for the test year, the Company's present operating margin (loss) is as follows:

TABLE B  
OPERATING MARGIN

LOCKHART SYSTEM

BEFORE RATE INCREASE

Operating Revenues	\$33,086
Operating Expenses	38,936
Net Operating Income (Loss)	<u>(\$5,850)</u>
Customer Growth	0
Total Income for Return	<u>(\$5,850)</u>
Operating Margin	
(Loss) (After Interest)	<u>(17.68%)</u>

MONARCH SYSTEM

BEFORE RATE INCREASE

Operating Revenues	\$86,247
Operating Expenses	94,814
Net Operating Income (Loss)	<u>(\$8,567)</u>
Customer Growth	0
Total Income for Return	<u>(\$8,567)</u>
Operating Margin	
(Loss) (After Interest)	<u>(9.93%)</u>

7. The Commission is mindful of the standards delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirements of the Company but also the proposed price for the water service, the quality of the water service, and the effect of the proposed rates upon the consumer. See, Seabrook Island Property Owners Ass. v. S.C. Public Service Commission, \_\_ S.C. \_\_, 401 S.E.2d 672 (1991); S.C. Code Ann. §58-5-290 (1976).

8. The fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

9. Based on the considerations enunciated in Bluefield and Seabrook Island and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a 5.12% operating margin on its Lockhart System and a 4.25% operating margin on its Monarch System. In order to have a reasonable opportunity to earn a 5.12% operating margin on its Lockhart System and a 4.25% operating margin on its Monarch System, the Company will need to produce \$42,286 in total annual operating revenues from its Lockhart System and \$101,649 in total annual operating revenues from its Monarch System.

TABLE C  
OPERATING MARGIN

AFTER RATE INCREASE	LOCKHART SYSTEM	MONARCH SYSTEM
Operating Revenues	\$42,286	\$101,649
Operating Expenses	40,122	97,333
Net Operating Income	\$ 2,164	\$ 4,316
Customer Growth	-0-	-0-
Total Income for Return	<u>\$ 2,164</u>	<u>\$ 4,316</u>
Operating Margin (After Interest)	<u>5.12%</u>	<u>4.25%</u>

10. The Commission has carefully reviewed the financial status of the Company and its requested increase in its rates and charges. The Commission recognizes that, despite its efforts at keeping its costs down, Lockhart is currently operating with a negative operating margin. The Commission also recognizes that the Company has not had an increase in its rates and charges since 1989 and that the Company is now only seeking approval of a relatively low operating margin.

Further, although the Company has received no opposition to its Application, the Commission is mindful of the fact that an increase in rates and charges will affect the consumers in Lockhart's service area. However, the Commission notes that the proposed increase will increase the minimum monthly bill of a customer on the Lockhart System by only \$1.52 and will increase the minimum monthly bill of a customer on the Monarch System by only \$.84. Accordingly, the Commission finds that the proposed rates and charges, including an increase in the connection fee charge, are just and reasonable in both amount and distribution so as to produce the increased revenues which are necessary to provide

Lockhart with the opportunity to earn its approved operating margins.

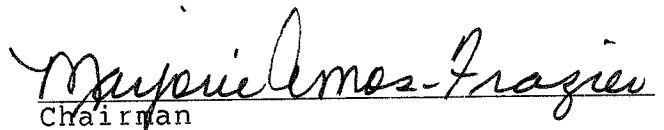
11. Accordingly, it is ordered that the rates and charges attached on Appendix A are approved for service rendered on or after the date of this Order. The schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976).

12. It is ordered that if the approved schedule is not placed in effect within three (3) months after the effective date of this Order, the approved schedule shall not be charged without written permission of the Commission.

13. It is further ordered that the Company maintain its books and records for water operations in accordance with the NARUC Uniform System of Accounts for Class C Water Utilities, as adopted by this Commission.

14. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)

APPENDIX A

LOCKHART POWER COMPANY  
WATER DIVISION  
POST OFFICE BOX 10  
LOCKHART, SC 29364  
803-545-2211

FILED PURSUANT TO DOCKET NO. 91-523-W - ORDER NO. 92-380  
EFFECTIVE MAY 22, 1992

LOCKHART VILLAGE

(RESIDENTIAL AND COMMERCIAL)

WATER RATE - MONTHLY

	\$ _____
MINIMUM 2,000 GALLONS	\$6.00
ALL OVER 2,000 GALLONS	\$1.90 PER THOUSAND GALLONS

MONARCH VILLAGE

(RESIDENTIAL AND COMMERCIAL)

WATER RATE - MONTHLY

	\$ _____
MINIMUM 2,000 GALLONS	\$5.65
ALL OVER 2,000 GALLONS	\$1.57 PER THOUSAND GALLONS

(INDUSTRIAL)

WATER RATE - MONTHLY

	\$ _____
MINIMUM 2,000 GALLONS	\$386.50
ALL OVER 2,000 GALLONS	\$1.30 PER THOUSAND GALLONS

LOCKHART VILLAGE AND MONARCH VILLAGE

CONNECTION FEES: (RESIDENTIAL, COMMERCIAL, AND INDUSTRIAL)

5/8" x 3/4" - \$300.00  
1" - \$375.00

FOR METERS LARGER THAN 1 INCH, THE CONNECTION FEE WILL BE THE ACTUAL  
INSTALLED COST OF THE METER TO INCLUDE THE METER, METER BOX AND  
ENCLOSURES, VALVES, PIPES AND FITTINGS, AND OTHER NECESSARY MATERIALS  
AND LABOR.